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John Raymond Wildman, first president, American Accounting Association, 1917, Professor and professional accountant

Gary John Previts

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The Academy of Accounting Historians

MONOGRAPH TWO

"Lest we forget"

John Raymond Wildman 1878-1938

GARY JOHN PREVITS
and
RICHARD F. TAYLOR



Lest we forget . . .

JOHN RAYMOND WILDMAN

First President, American Accounting Association, 1917

Professor and Professional Accountant

GARY JOHN PREVITS

and

RICHARD F. TAYLOR

The Academy of Accounting Historians
1978

Monograph Series of the Academy

1. *A Reference Chronology of Events Significant to the Development of Accountancy in the United States*, by C. L. Knight, G. J. Previts and T. A. Ratcliffe, 1976
2. *John Raymond Wildman*, by Gary John Previts and Richard F. Taylor, 1978

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Box 6999
University, Alabama 35486

Printed by

THE BIRMINGHAM PUBLISHING COMPANY
130 South 19th Street
Birmingham, Alabama 35203

“Each new generation must learn for itself. But each new generation will think more intelligently if it knows what its predecessors have thought and done.”

JOHN R. WILDMAN

1930

(Foreword: *Green's History
and Survey of Accountancy*)

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AUTHORS' FOREWORD

JOHAN RAYMOND WILDMAN WAS BORN A CENTURY ago, in 1878. In recognition of the centenary of his birth The Academy was commissioned by the Deloitte, Haskins & Sells Foundation to undertake a study of Mr. Wildman's career and its relationship to the development of our profession.

Wildman's presence in the accounting academic and practice community as depicted in this work is most certainly worthy of being termed significant — and in some cases it might be better termed “indispensible,” particularly with regard to his telling personal influence on the lives of several contemporary leaders of our profession.

Like many other American-born leaders of the Pre-classical age (prior to the great depression of the 1930's) Wildman was a frequent contributor to the literature. He wrote on nearly every important accounting topic. His influence in academic circles as a teacher and administrator was pronounced, as noted by the effect he had on many of his promising students at New York University.

Respected by his contemporaries, Wildman served as the first President of the forerunner of the American Accounting Association, having been instrumental in its formation. Later he headed the unique research department of Haskins & Sells and coauthored an important work on the accounting for no-par stock. As an active leader in the profession he was involved in the preparation of the *Verification of Financial Statements* pronouncement and at Haskins & Sells he assisted in the preparatory activities for *The Statement of Accounting Principles* which was released the year of his death. All of this suggests that Wildman's efforts on behalf of the early profession, his role as professor and research practitioner, compel those with a sense of equity to accord him much wider regard.

We appreciate this opportunity to investigate Mr. Wildman's role and contributions to our discipline and acknowledge the financial assistance of the Deloitte, Haskins & Sells Foundation.

GARY JOHN PREVITS
RICHARD F. TAYLOR

University, Alabama
May 29, 1978

INTRODUCTION

JOHN R. WILDMAN WAS NOT ONLY A fine and incisive teacher of accounting and a writer of clarity on the subject, but was one of the important innovators of the practicing profession when that profession was beginning to emerge as a major force in the development of the economy.

I was fortunate in spending my first year in the profession as an assistant to him in preparing the monthly *Haskins & Sells Bulletin*. Although my direct experience with him was for only one year from July 1, 1927 to the summer of 1928, that experience made an impression on me which was to continue for the rest of my professional career. No other man, other than my father, made such a lasting mark.

While John Wildman was a great practicing accountant, he remained a great teacher during his practicing career. During my year working for him, he often interrupted his review of my work to give me a lecture on some specialized phase of accounting — a fund of knowledge which was to be of inestimable value to me in later years.

On other occasions he would come by my desk and say "Get your hat and come along with me." We would then proceed to a conference with bankers and clients during which I could only sit and listen — and learn.

A year with John Wildman was not only a great learning experience in accounting, but, because of his careful and in-

cisive use of the English language, was an inspiring example of the most important tool of a public accountant.

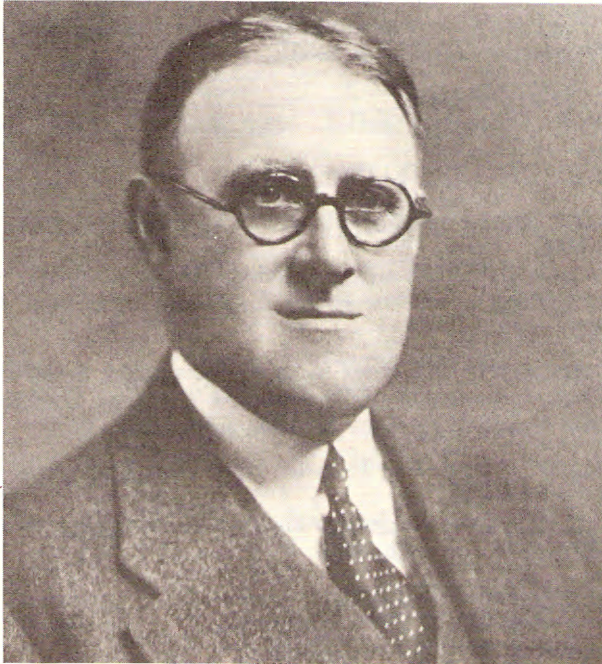
A few years before my association with him, he recognized the need for a rational choice of auditing tests, which had become essential as business transactions increased in volume. With his partners, William Bell and Edward Kracke, he undertook a comprehensive study of internal control and of its effect on a choice of procedures for uncovering defalcations and embezzlement. In the latter part of the 1920s the firm put into effect an Internal Control Questionnaire and coordinated program for testing transactions which probably was the first of its kind used in the profession.

John Wildman, in those years, was one of the most vocal advocates of the importance of physical inspection of inventories which was to become standard procedure in the profession several years later.

With the enactment of the Securities Act of 1933, Mr. Wildman instituted an "oversight" review by the firm's Executive Office for all registration statements of the firm's clients. During his last year, before premature retirement on June 1, 1936, I again had the opportunity to benefit from his penetrating and sound judgment when I reviewed with him two or three registration statements which I had supervised.

Upon his death, on September 21, 1938, the profession lost one of its finest minds, which had contributed so much to the profession, but never was so preoccupied as to overlook an opportunity to teach the future members of a profession of which he was truly one of the unsung giants.

JOHN W. QUEENAN
February 5, 1978
Tequesta, Florida



**John R. Wildman, a founder and first
president of the forerunner of the
American Accounting Association.**

JOHN RAYMOND WILDMAN

Born: March 15, 1878 Yonkers, New York

Died: September 21, 1938 Upper Montclair, New Jersey

Parents: Eliakim Edward Wildman
Harriet Anna Raymond

Marriages: Louise M. Wells; June 4, 1901 (d. October 13, 1932)
Rose Degoutrie; October 4, 1934

Education: Yale University
New York University B.C.S. (cum laude) (1909), Accounting Prize.
New York University M.C.S. (1911)

Public Service: Served in Army Hospital Corp, Spanish-American War 1898-1900
U.S. Government Disbursing Officer (Puerto Rico) 1900-1905
General Manager, Puerto Rican Teachers Expedition to U.S.A. 1904

Practice Career: 1905-1909 Staff member, Haskins & Sells, New York
1918 Head, Department of Professional Training, Haskins & Sells
1918-1938 Partner, Haskins & Sells, Executive Office

Teaching Career: Accounting Faculty, New York University
Instructor 1909-1911
Assistant Professor; Professor; Head of Department 1911-1918
Member of Faculty 1918-1923

Professional and Social Affiliations:
Society of Mayflower Descendants
Sons of the American Revolution
Accountants Club of America
Bankers Club
Alpha Kappa Psi
Delta Mu Delta
American Institute of (Certified Public) Accountants
National Association of (Cost) Accountants—Charter Member
American Accounting Association*
New York State Society of Certified Public Accountants
New Jersey State Society of Certified Public Accountants

Major Professional Service:
First President (1917) American Accounting Association*
Director, New York State Society of Certified Public Accountants, 1917-1918

Chairman, Research Committee, American Accounting Association*, 1925

Director of Education, National Association of (Cost) Accountants, 1926

Chairman, Committee on Education, American Institute of (Certified Public) Accountants, 1926-1931

Chairman, Committee on Classification of Accountancy Services, American Society of Certified Public Accountants

Co-Author (With Weldon Powell) of *Capital Stock Without Par Value*, selected by Grand Council of Beta Alpha Psi as the most notable book of the year (1929)

* (Until 1936, The American Association of University Instructors in Accounting)

PART I

JOHN R. WILDMAN—THE PERSONAL SIDE

BORN IN 1878, JOHN RAYMOND WILDMAN was one of four children. He had a brother (William F.) and two sisters (Lena G. and Katherine W.). His father had served as a Union officer during the Civil War and his forebears were direct descendants of Elder William Brewster who came to America on The Mayflower. His mother was a descendant from the families of Dorastus Green and John Porter, both of whom had fought in the Revolutionary War.

Wildman entered Yale University but when the Spanish-American War came he elected to enter government service, being assigned as a hospital steward in the Puerto Rican Regiment. Later he entered the employ of the Department of Education of Puerto Rico on August 15, 1900, as a bookkeeper and became disbursing officer and Chief of the Division of Disbursements and Accounts. As such he was charged with the supervision of the accounting for forty-six school boards and the devising and installing of a system of accounts for them.

Upon returning to New York in 1905 he applied to Haskins & Sells for employment. There was no immediate opening, but in July, 1905, the requirements of the Equitable Life Assurance Society engagement led to his employment on July 24, 1905, as an assistant accountant at \$25.00 a week.

Wildman enrolled in accounting courses at New York University in 1906, taking the work at night. He graduated in June, 1909, the recipient of the accounting prize, with a B.C.S. (cum laude) and was offered an appointment as instructor in accounting which he accepted effective August 30th. Earlier that same year he had taken and passed the CPA examinations. In 1911 Wildman received the degree of Master of Commercial Science also from NYU.

Wildman's personality has been variously described. For example, Dean Madden, a colleague of Wildman's at New York University recounts: "Mr. Wildman was always a hard worker, dominant yet quietly so, aggressive but never unpleasantly, tense but not appearing so, with a doggedness that survived all discouragements that beset his path toward the objective he was seeking to attain."¹ Dr. Joseph J. Klein, a contemporary of Wildman remembered Wildman's attention to detail and noted that Wildman was always "proper" in his bearing and behavior.² His second wife, Rose, remembers him as a "studious, serious person who didn't have time to be frivolous."³ Howard C. Greer recalls that, "... he had red hair and a flamboyant demeanor — [he] once said in a meeting that a newspaper headline reading WILD MAN AT LARGE must have referred to him."⁴

His classroom manner is described by Maurice Peloubet:

In the college year 1912-1913 I took a course in cost accounting under John Raymond Wildman . . . Professor Wildman was a man of great dignity and impres-

sive presence, but was at the same time a well-liked and popular teacher with the undergraduates. . . .⁵

Mr. Wildman, always a thorough and hard worker, was given the responsibility of preparing the firm's position relative to accounting matters in the G. W. Miller & Company, Inc. litigation. The case involved a client of Haskins & Sells who complained that the firm was negligent in auditing accounts and in certifying the balance sheet. The Miller Company had been involved in real estate financing in Florida — the market had turned sour on Florida development in the early and mid-1920's.

Subsequent to the precedent set in the 1931 decision in *Ultramares v. Touche*, the plaintiffs related to Miller (over 1100 parties) further alleged fraud on the part of the firm. The initial verdict in the case (*O'Connor v. Ludlam*), reached by a jury vote, was in favor of the firm. But appeals in the case and ultimate resolution did not come to settlement until 1942, some 14 years after the initial events. The favorable outcome of the case was an important achievement for the firm and to the credit of Mr. Wildman. A sad note was that the strain of preparing for the trial, coupled with the death of his first wife, Louise M. Wildman on October 18, 1932, caused such a shock to Wildman that he submitted to an extended period of rest. He later remarried, but further illness led him to request retirement from active practice on June 1, 1936.

Wildman's work directed his lifestyle — indeed he lived his work. His personal habits were a full complement to his professional calling. John Queenan, who was hired by Wildman to work at the Executive Offices of the firm, remembers that Wildman came to work in "striped trousers, a dark Oxford gray jacket, winged collar, bow tie and hat." His dramatic dress was a "badge of office" and evidenced that one "looked the part"

of a respected and trusted professional.⁶ He was a skilled person with a pen and in the use of the spoken word — he abhorred publication for publication sake, commenting to his colleagues that “. . . there was a great deal of trash on the market . . . because of the lack of critical thinking before writing for print.”⁷

If Wildman indulged himself in any way to compensate for his demanding work schedule it was in his personal tastes. Having no children and only one niece who was a close member of the family, he lived in a distinctive suburb and made use of the services of a full time domestic staff. He frequently vacationed in Europe and lived in a quiet but refined way, including the use of a chauffeured 16 cylinder Cadillac. Mr. Wildman had an extensive rose garden at his residence on Bellevue Avenue which he admired but never tended. His wife Rose recalls that “there wasn’t a day from late April until Thanksgiving that the chauffeur didn’t pick a fresh rose for Mr. Wildman’s lapel in the morning before he was driven to the office in New York City.”⁸

Wildman was a heavy smoker of both cigarettes and cigars, but stopped smoking the latter at the request of his second wife, Rose. The smoking habit, one of his proteges recalled, was more of “an outlet — a thing for letting off pressure.”⁹

Stuart C. MacLeod, who organized and developed the National Association of (Cost) Accountants portrayed the orderliness of Wildman’s lifestyle as follows:

John Wildman had a perfect accounting mind, a meticulous respect for rules and regulations and for the detail upon which accounting interpretations must be built.

He continued:

I recall in New York University his calendar of appointments. It was set up on five minute intervals.

Every day was completely scheduled on a five minute headway. I have always remembered this because it made a deep impression on me at the time, and some years later, when I was in charge of an organization. I adopted this idea and hired my staff, not on a basis of so much per month, or per week, but so much per minute. I still think the idea has considerable merit.¹⁰

One is both intrigued about and yet must be impressed at the character of John Wildman. A private person, reserved in many ways, yet a skilled, dedicated and unique self-made success.

In his later years he suffered from diabetes and took insulin to medicate the illness. Unexpectedly, shortly after returning aboard the S.S. Queen Mary from a five week visit abroad, he died of a heart attack, on September 21, 1938, at his home in Upper Montclair, New Jersey.

PART II

JOHN R. WILDMAN—THE PROFESSIONAL SIDE

JOHN WILDMAN WAS FIRST AND REMAINED foremost, an academic — a teacher. To do this well he mastered the use of the written and spoken word and he was respected for his ability to judge and develop the talents of persons whom he provided with formal training in accounting subjects.

He left the staff of Haskins & Sells and began his formal teaching career as a University accounting educator in September 1909, accepting an appointment at New York University. The profession of accounting at that time, as represented by the licensed Certified Public Accountant, was little more than a decade into existence. As one university administrator remarked, relative to the concern over accounting instruction: "Those who teach don't know the subject and those who know the subject can't teach." A dire situation indeed, and John Wildman's presence would have a countering beneficial influence on that state — through his books and through the process of selecting staff and organizing the accounting department at New York University.

While it is not established that Wildman was a pupil of Charles Sprague's during the former's period of study at NYU (1906-1911), Wildman's writings, particularly his text, *Principles of Accounting* (1913), bear the mark of Sprague's influence both in chapter end citations and in the general form which Wildman chose as the accounting equation. It was Sprague who had developed the premise "Assets = Liabilities + Proprietorship"; Wildman provided a modification to that proposition and asserted that: "Assets = Liabilities + Accountabilities".¹¹

In accenting the difference between proprietorship and accountability, Wildman provided a unique and important approach to recognizing the new and rising class of non-management ownership rights and the fiduciary position which executives of corporations held with regard to the permanent investments of stockholders. Wildman's premise, like Sprague's, ignored the entity fiction. Instead, Wildman expressed the belief that ". . . the great corporations are in effect magnified individuals."¹² This suggested that accountability was oriented to individual owner-proprietors as was Sprague's premise.

During his years on campus, and during his years as the partner primarily involved with staff recruitment, training and technical research for the firm of Haskins & Sells, Wildman became noted as a prolific, but careful writer. His work on no-par stock co-authored with Weldon Powell was selected as the most notable contribution to the accounting literature in 1929 by the Grand Council of Beta Alpha Psi.¹³

As Maurice Peloubet remarked:

One of Professor Wildman's characteristics or gifts was the ability to write on complex subjects with great clarity.¹⁴

Among Wildman's early texts were:

Cost Accounting (1911)

Principles of Accounting (1913)

Elementary Accounting Problems (1914)

Introduction to Accounting (1915)

Principles of Auditing (1916)

With regard to his textbook style, Wildman noted in the "Preface" to *Principles of Accounting*:

The subject has herein been approached in a manner different from most books on accounting. The choice of most writers seems to be the analytical method, beginning with the financial statements as a basis. The present work makes use rather of the synthetical method, with the preparation of financial statements for administrative purposes as the objective. An attempt has been made to tie in the allied subjects such as economics, law, finance and organization and to show the relation which accounting bears to these subjects.

These books and his many articles on accounting extended his academic influence beyond the New York University campus. Several early issues of the *Journal of Accountancy* contain the series "Department of Practical Accounting," a problem oriented sequence of discussions prepared by Wildman to provide instruction in problem solving and "... to show the application of accounting principles."¹⁵

He continually made addresses to businessmen, bankers and lawyers with the intention of encouraging a stronger interest in formal commercial education, particularly as it related to accounting.

Among the student projects which Wildman fostered was one put into effect in 1914, as a laboratory, which provided free

auditing services to charitable organizations in New York City. The laboratory enabled students to obtain audit experience and afforded the charities a cost free opportunity to benefit from the review that such an audit afforded. Wildman as professor in charge of the project was aided by two young assistant professors, W. W. Duncan and John T. Madden. The latter would later rise to the post of Dean of the New York University School of Commerce.

The laboratory approach was Wildman's way of dealing with what became more commonly acknowledged over the years and was noted in the *Accounting Review* in 1941, namely that, in the words of Sidney Winter, "Experience shows that something more than the study of theory is necessary for proper and satisfactory execution of work in the field."¹⁶

Winter, referring to the accounting student, went on to say, "With these remarks of the late John R. Wildman, I am in full accord (:)"

He needs not only to study the theory but to have someone who is competent take him to the job, analyze it for him, show him how his theory applies, tell him what to do, watch him while he does it, correct his mistakes, and let him do the work a second time if necessary.

Wildman's wisdom as a teacher of auditing left an indelible imprint on the generation of minds which was in contact with his teaching, such that as late as 1949, over 25 years after Wildman had left the NYU classroom, Earle G. King, then Chief Accountant of the Securities and Exchange Commission, referred to a passage from Wildman's *Principles of Auditing* to emphasize a point about auditor's judgment and slavish conformity: Quoting Wildman, King noted:

Procedure which might be quite proper in general would perhaps need to be changed in a case, for instance, where the stock of a certain corporation is all owned by one man, the report goes to one man, affects no one in the organization but himself and is used for no outside purpose. Certain opinions of such a man may not coincide with precisely those of the accountant. He may wish his books kept in a certain way. The accountant need feel no offense because this is so. He may have the opinion that the ideas of the proprietor are wrong and that his way of doing things are not the most approved, but there is no reason why he should drop the engagement because of this fact. The position of the proprietor may not be a variation of principle but represent rather a difference of opinion.¹⁷

Professor Wildman was one of the founders of the American Association of University Instructors in Accounting, now the American Accounting Association. The Association's formative meeting was held in Columbus, Ohio, in 1916, with about seventeen in attendance. Wildman served as chairman of the meeting and was elected as the first President of the Association.

A constitution for the organization was, in the main, proposed by Wildman. Several purposes adopted for the Association were contained in his organizational letter of December 30, 1915.¹⁸

In 1926, at the 10th meeting of the Association, Wildman presented a lengthy report on research needs in accounting and submitted a plan for a research program for the Association. The report was a result of the appointment, by President Roy Kester, of a research committee which Wildman had been asked to chair.

The important impact of this report is recognized when one reads it today. It served as a catalyst for discussion and ulti-

mately action as to the role which the Association and academics should adopt relative to accounting research.

The research problems identified by Wildman were in three broad categories:

1. Problems of definition and theory
2. Problems involved in attempts to establish standards
3. Problems related to accounting method

One area of potential research was absent — cost accounting.

Wildman provided, in a general memorandum on research, accompanying his report, what can be called definitions of research, first, general research:

To seek out truth and discover new facts which will serve to

- a. Solve existing problems
- b. Clear up mooted questions
- c. Correct errors in reasoning
- d. Eliminate unsound doctrines¹⁹

To these notions he added that the purpose of research in accounting was:

To produce data which will make for more scientific and more satisfactory accounting.²⁰

Return to Practice

Mr. Wildman rejoined Haskins & Sells on January 16, 1918, charged with organizing “. . . the H & S research and training unit.”²¹ On December 1, 1918, he was admitted to partnership; however, he continued on the faculty at NYU until 1923. One of his innovations upon returning to the firm was to sponsor the publication of an intra-firm magazine, the *Haskins & Sells Bulletin*, which was first issued in March, 1918. Printed monthly and usually containing eight pages, it was a compendium of

firm policy statements, theoretical vignettes, practical audit advice and personnel news. As one of the first such publications it was a credit to Wildman's foresight and evidenced his respect for the power of the printed word as a means of strengthening the internal operation of a growing professional organization.

Wildman was also an able recruiter for the firm. He commenced the procedure of drawing men from colleges and universities when such a normal pattern of recruiting had yet to be established.²² As a member of the Institutes' Committee for Placements, he worked to assist others in assessing the quality of college graduates being trained in accounting. He had a wide acquaintance with the accounting faculties at universities as a peer and was capable of influencing several talented young persons to join the staff of the firm. Among those who came through the direct interest of Wildman were Arthur Foye, John W. Queenan, Weldon Powell and Ralph S. Johns.

Foye had been Wildman's administrative assistant and an instructor in accounting at NYU; he came to Haskins & Sells in 1918. Later, Foye served as acting managing partner (1942-1947) and then became managing partner of the firm from 1947 to 1956. He was succeeded as managing partner by John W. Queenan. Foye also served as President of the American Institute of (Certified Public) Accountants (1953-1954) and was a recognized leader in the post World War II movement to organize the international practice of accounting.

Mr. Queenan is noted for his important activities in the area of accounting principles development, being the only person to have served terms on each of the authoritative United States professional standard setting bodies, The Committee on Accounting Procedure, The Accounting Principles Board and The Financial Accounting Standards Board.

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VOLUME II.

JANUARY, 1919 — DECEMBER, 1919

NEW YORK

HASKINS & SELLS

489 FIFTH AVENUE

Illustration No. 2

The front page of the first issue of the *Bulletin* created by Wildman.

Mr. Powell was intimately involved in the technical processes of accounting from his earliest association with Wildman. Together they wrote the award winning book *Capital Stock Without Par Value* (1929). It was through Wildman that his niece Marion Wildman and Weldon Powell became acquainted and later married.²³ Powell served as chairman of the first Accounting Principles Board and was instrumental in its organization.

Ralph S. Johns was the second college graduate employed by Wildman for the Technical Procedure Department. He became widely recognized as an author of auditing works and as an authority on accounting for college and other non-profit organizations.

Technical Research

In 1924 Haskins & Sells reorganized and retitled the Department for Professional Training into a combined training and research unit under Wildman. Within this new Technical Procedure Department, Wildman was to collaborate with two other partners, William H. Bell and Edward A. Kracke, in pioneering technical research and innovation applicable to auditing. Initial work to establish programs for the evaluation of internal control, tests of transactions and for cash auditing procedures was done by this group.²⁴

As early as 1926 he outlined a research program designed to eliminate the arbitrary approaches which appeared as the result of purely pragmatic applications in accounting practice.²⁵ In 1924, Wildman served as chairman of the New York Society's special technical committee which was considering the feasibility of various forecasting duties which had been proposed for accountants.

Wildman's path breaking proposals for the classification of auditing services were evidence of his attempts to share the

product of the technical research of the department with the profession at large. The classification was cited by J. R. Taylor to support the fact that leading members of the profession had developed many promising innovations but that practitioners were slow to accept such matters. In 1925 Wildman was Chairman of the Institutes' Committee on Education, and undertook a survey relative to audit classification. Taylor notes that:

. . . (H)is committee suggested that there could be several audits with the recommendation that a standard certificate for each type be adopted (but) the members of the Institute were unwilling to accept the report. . . . These members must have felt that if audit engagements were classified, this would leave only a restricted area in which the accountant could exercise his professional judgement. . . .

It is interesting to note that although accountants realized the inherent weakness in their techniques and the growing financial and economic complexities attendant with the concentration of capital . . . they were unwilling to accept self-imposed restrictions.²⁶

While the initial reluctance of the membership to accept innovation was viewed as disappointing, the May, 1929, issue of the *Journal of Accountancy* reveals the important outcomes of the episodes linking this audit classification issue with the revision of the 1917 booklet *Approved Methods for the Preparation of Balance Sheet Statements* reissued as *Verification of Financial Statements*. In the editorial explaining the evolution of the latter from the former the new statement is called ". . . the most representative pronouncement upon the vital question of accounting procedure which has been made in this country."²⁷

Wildman, as might be expected, was a member of the special committee which prepared the revision, in part due to his position as Chairman of the Education Committee, and because of

his involvement in the initial audit classification proposal, which had generated a renewed interest in the matter of an authoritative pronouncement in the auditing area. Ralph Johns recalls how he would assist Wildman in preparing for the meetings of the special committee — and the pitched battles Wildman had with those on the committee who were influenced by the “British Concept” of accounting. “People would say” according to Johns, “‘I bet Wildman wins, he’s not going to give up. He’s stubborn, he’s dogged and persistent.’”²⁸ At issue lay the questions which would later be resolved via the McKesson & Robbins case — namely the necessity for auditors to observe inventories and confirm receivables. Under what was held to be the British view, the representations of management were sufficient; Wildman, however, had chosen to pursue the position that these assets should be inspected along the lines that are now commonly employed.

As noted earlier, the strain of preparing the accounting materials to support the defense of the firm in *O'Connor v. Ludlam* and the death of his first wife in the early 1930's served to break the robust health that had marked Wildman's career.

After recuperating from these setbacks Wildman was not content to merely observe the many post Depression developments which were occurring. He took on responsibilities relative to client registration statements being filed with the Securities and Exchange Commission.

Wildman was also very closely associated with the undertaking of *The Statement of Accounting Principles*, ultimately published under the auspices of the American Institute of (Certified Public) Accountants. Foye notes that when the “. . . Haskins & Sells Foundation projected *The Statement of Accounting Principles* in July, 1935, Mr. Wildman through his knowledge of and acquaintance with distinguished educators . . .

arranged for Professor Thomas H. Sanders . . . and Professor Henry Rand Hatfield . . . to be two of the three independent authorities.”²⁹

Regarding Wildman’s role in the project, Sanders added:

The work which the Foundation has entrusted to the committee has required frequent and intimate association between Mr. Wildman and myself. Although I have for years known and admired his ability and character . . . I have been constantly surprised by his penetration, understanding and unfailing sound judgment.³⁰

Epilogue

John Raymond Wildman entered the accounting profession in 1905 and in the three decades he was actively involved in the teaching and practice of accounting the profession grew from infancy to strapping adolescence.

As an educator and leader among professors he was acknowledged and respected. His career in education, however, was too important to be limited to a single campus. Through his writings, texts, and professional influence he extended the domain of his thought throughout the country and down through the years into today’s world of geo-accounting. The academic organization he helped form, the teaching and research ideals it fosters and the individuals he profoundly influenced have had a remarkable influence on our world.

It is regrettable that we take so little notice of men like John Wildman, who in the early days of this century, relied on their convictions, wit and courage to pattern what we use habitually today. Perhaps as our discipline reaches new levels of maturity it is not too much to hope that the study of the intellectual heritage of our profession, by way of learning more

about what our predecessors have thought and done, will be acknowledged by academics and encouraged by practitioners as a valuable means to “think more intelligently.”

PART III

ANNOTATIONS OF SELECTED WRITINGS BY JOHN R. WILDMAN

THESE ANNOTATIONS OF WILDMAN'S writings serve as an exposition of his accounting and auditing theory. His views on interest on owned capital, the treatment of treasury shares, and the underlying concepts distinguishing between value in use and value in exchange relative to appreciation of capital assets, all betray a sophistication which pre-views theory as we have come to accept it.

Perhaps more of Wildman's works deserve review and study and those chosen for annotation will encourage that review on an individual basis by the reader. The period selected runs from 1912 to 1932 and includes many of his major contributions to the literature. Wildman's writings diminished substantially after 1930, perhaps due to his involvement in the *O'Connor v. Ludlam* case.

“Department of Practical Accounting,” *Journal of Accountancy*. (January, 1912 through December, 1913)

GENERAL

Written for the benefit of students and those who were preparing to sit at examinations, each item in this series of articles consisted of a demonstration problem and a practice problem. The series began with the January, 1912 issue of the *Journal* and appeared each month for two years.

The first set of problems dealt with concepts pertaining to sole proprietorships. These were followed by problems dealing with progressively more involved forms of enterprise organization to include partnerships and corporations. The final group of problems discussed details of voluntary bankruptcy, consolidations, mergers, fiduciary accounting, cost accounting, and accounting for trusts.

The demonstration problem was a summary of the pertinent facts involved in the specific area of accounting treated and included a statement of the requirements of the problem. This was followed by a detailed discussion of the solution to the problem designed to teach logical problem solving methodology. The application of accounting principles is discussed. In some instances the format of the financial statements disclosed in the solution was an innovation.

Wildman's goal in presenting this series of articles was that they would “. . . offer an opportunity for practice in problem solving; show the application of accounting principles; and, provoke discussion that may lead to the discovery of accounting principles.”



January, 1912

The demonstration problem is a simple sole proprietorship in which the books are kept by single entry and consist of a ledger and a journal. Three months after starting business the proprietor is interested in determining whether or not he was making any money. The requirement is to prepare a statement which will show the amount of the profit or loss for the three month period.

The facts presented in the problem enable the reader to determine the beginning capital and, after two minor adjustments, the ending capital. The determination of profit or loss is then found by the simple procedure of subtracting one capital figure from the other.

In the discussion, Wildman points out the inadequacy of keeping books under the single entry system. In discussing the question of valuing the inventory he conceded it is troublesome to the accountant:

If he has his choice in the matter he will presumably price the inventory at cost, since he will realize that increasing the value over cost is to anticipate a profit. If the proprietor insists on fixing the value he will probably use it as fixed, but if he is a conscientious bookkeeper he will call attention to the questionable practice.

While the keeping of books by the single entry system is not recommended, the system does have its uses:

The determining of profits in this way is known as the asset and liability method. It is intimately associated with single entry. It is many times treated slightly by accountants, but it has its value as a practical expedient many times in instances where the question of whether or not expensive analytical work shall be done

will depend upon whether or not the expense is warranted by the result which will be obtained.



February, 1912

This month's problem is a continuation of that used in January. The proprietor, disappointed because of the loss for the three month period and because his accounting records provide so little information, instructs his bookkeeper to convert the books from single entry to double entry.

The discussion takes the reader through the steps necessary for the conversion. The journal is brought up to date, nominal accounts are introduced, purchase and sales journals are established, a "working" sheet is developed and, a balance sheet, profit and loss account, and proprietor account are prepared. Although furniture and fixtures are purchased during the year no provision for depreciation is made.



March, 1912

The March problem is a sequel to the first and second problems. In problem one the books are kept by the single entry system and found deficient. In problem two the books are converted to the double entry system. Much more information is provided the proprietor after the conversion but the profit and loss account that is prepared provides limited information as to *why* there is a profit or a loss.

Continuing the same basic circumstances of the first two problems, the bookkeeper is asked to arrange the accounts so that a statement which will show the merchandise and expense accounts can be provided to the proprietor. The solution to the problem carefully discusses the steps necessary to convert the

merchandise account into a trading account and prepare a "Trading and Profit and Loss Account" instead of a profit and loss account.

Wildman's objective in presenting this problem is to show the reader why double entry bookkeeping is superior to single entry. Then he demonstrates how, by use of a working sheet, the accounts can be closed and financial statements prepared. In this problem the real reason for accounting is demonstrated—to provide the proprietor with information for decision making. Consequently, the trading and profit and loss account is, in reality, a statement of credits (sales) and debits (expenses). Now the proprietor can see what action he must take in order to improve profits. He must: purchase more cheaply, increase his volume of business, reduce expenses, or add to the cost of all his goods a percentage greater than the ratio of expense to cost.



April, 1912

Wildman shows in this problem that the trading and profit and loss account is inferior to a "Statement of Income and Profit and Loss" because:

First, it (Statement of Income and Profit and Loss) is understood by the layman. Second, it permits the comprehensive grouping of items without the useless bookkeeping technicalities. Third, it facilitates comparison.

The grouping of items of income or expense around business functions and arranging these functions so as to display the results of operations is "the object of the ideal profit and loss statement." The statement recommended starts with Gross Sales and after many intermediate steps arrives at Profit and Loss for the period. To Profit and Loss for the period, Draw-

ings are deducted and, presumably, capital contributions are added to the beginning Proprietorship balance to arrive at Proprietorship end of the period.

Wildman shows in this article his advocacy for a statement of income as a replacement for the trading and profit and loss account.



May, 1912

This article starts a series of five problems in which Wildman demonstrates a theory of partnership accounting.

The first problem involves a sole proprietor who desires to take into partnership two of his employees. The reader is asked to close the books of the proprietor, set up the goodwill provided for in the agreement of partnership, and adjust the partners' accounts. The solution to the problem is straightforward. Wildman provides a discussion of the nature of goodwill and some advice on complying with the laws of the state in which the business is conducted.



June, 1912

This problem carries the partnership organized in the preceding problem six months into the future. Several events have occurred that require the reader to analyze accounting principles and procedures and arrive at a proper solution; for example, assets were withdrawn from the partnership, land was estimated as being worth \$25,000 more than cost and one of the partners added \$20,000 to his investment in the business.

In the matter of land appreciation, Wildman commented:

Such appreciation might be treated in one of three ways: first, as an offset to the depreciation on build-

ing, etc., second, as a profit, and third, set up as a reserve. Of these ways, the first has no logical foundation, since the land is quite distinct from the buildings; the second is to be deplored for the reason that it anticipates profits; the third is to be advocated, if any cognizance at all is to be taken of an increase in value, since if any advantage or gratification is to be derived from such a step it is equally true that no disadvantage is sustained.

In discussing depreciation, Wildman is of the opinion that it is "properly computed on the basis of cost." Whether the asset should be written down or a reserve created depends upon opinion. Wildman was of the opinion that the latter method is preferable "since the desired result of reducing the value is accomplished without interfering with the asset account which should show the cost."



July, 1912

This problem serves to continue the instruction on accounting, requiring the closing and opening of a set of books. Before either set of books can be opened or closed it is necessary to determine the financial status of the business and illustrate the formation of a partnership through the sale of a going concern.



August, 1912

This problem expands the preceding problem by providing a salary for one of the partners and interest on invested capital for both partners. As to the salary it "tends to equalize the standing of the partners" when one partner is devoting more of his time to the business than the other. As to the division

of profits when nothing is specified about the method of determining them "the rule in such cases is that partners shall participate in the profits and be charged equally with the losses."

Wildman discusses the propriety of crediting partners' accounts with interest when the partners have equal amounts of capital invested and share equally in the profits and losses as follows:

As a general proposition it is contrary to the economic theory on which good accounting is based to charge the accounts of the business with interest on capital, since capital is invested in and not lent to the business, and receives as its share in the distribution the profit which results from its employment in the enterprise. Where there are unequal investments of capital it is usual, however, to employ this expedient of adjusting the accounts of partners. It would be far more correct where there are unequal investments of capital among partners, unless the copartnership agreement specifies that interest shall be charged, to refrain from making any interest entries in the operating accounts and adjust inequalities of investment among partners in the partners' accounts.



September, 1912

In this problem there are three partners with investments of \$50,000, \$30,000, and \$20,000, respectively. The partners each received a salary and interest on invested capital. One of the partners died, leaving his estate to his wife. The business was continued by the surviving partners who settled with the widow a little over three months after the death. The requirement is to prepare an accounting "such as the partners might have rendered to the widow."

In this and the next article in the series, Wildman discusses partnership settlements which he describes as "among the most

difficult accountings to prepare." Wildman continues by pointing out that death:

. . . terminates a contract. Copartnership agreements are no exception to this general rule. Death, however, does not by any means terminate the business. The business may continue if the surviving partner or partners so elect. In such cases, the continuing partners become trustees in the business for the estate of the deceased partner.

The requirements of the problem demand that the extent of the interest of the deceased partner be determined as of the time of his death. In this regard it is necessary "to draw a sharp line of demarcation in the financial transactions at the date of death unless the copartnership agreement provides that the interest of the deceased shall be determined as at the end of the month or year in which the death occurs." The reader is then shown how to determine the extent of the deceased partner's interest and provide a statement that clearly shows the connection between it and the last statement of financial condition the dead partner received.



October, 1912

The problem is the last in the series dealing with partnerships. According to the terms of the articles of partnership, in the event of death of one of the partners, the accounts were to be stated at the end of the month in which the death occurred and the business was to be liquidated. One of the partners dies in mid-month.

The solution to the problem presents the steps necessary for complying with the requirements. Liquidation of the business is pointed out as an exception rather than a rule, but it is not

unknown. An additional element is introduced and discussed, in that surviving partners are to receive a commission for their services in settling up the affairs of the partnership.

The question may be raised as to the prevalence of such practice. It is sufficient to say that it has been known to occur and upon investigation the justice of it will be apparent. The surviving partners were obliged to devote their attention to liquidating it (the business). They were not free to offer their services elsewhere or engage in other business and they were paid for their services in winding up the affairs of the firm. The charge for their compensation is made to profit and loss and credited to their capital accounts in equal parts.



November, 1912

This problem deals with the steps that should be taken to open the books of a corporation. Wildman provides a moderately complicated group of transactions involving the initial issue of stock and subsequent subscriptions, sales for cash and services, cancellations, and retirements.

The solution to the problem is straightforward. In discussing the method of making opening entries, Wildman recognizes two methods. One, called the formal method, consists of setting up the authorized capital stock as of the date corporate life begins. The other, called the pro forma method, consists of making a memorandum entry at such time, but defers opening a capital stock account until stock is actually issued. It is interesting to note that Wildman recommends, and the solution to the problem uses, the formal method.



December, 1912

This problem deals with a general partnership that, "in order to preserve the organization of their business in the case of death of any of the partners," decides to incorporate.

The solution to the problem requires journal entries to open the books of the corporation (again the formal method is used), a balance sheet, and skeleton ledger accounts, all of which can be accomplished, with ease, by following Wildman's thorough explanation.

An interesting aspect of the problem is the recommended procedure for determining the capital stock of the new corporation. The partners had in excess of \$120,000 in their capital accounts and one would expect that the capital stock of the corporation would be approximately that amount. However, it was pointed out by counsel that if the corporation was capitalized for the amount in the partner's account such procedure:

would increase the organization tax and the subsequent corporation taxes and that no more would be gained than if the capital stock were nominal in amount. As a consequence \$25,000 was decided upon as the amount at which the corporation would be capitalized; the difference . . . being covered by notes of the corporation.



Principles of Accounting. Brooklyn: The William G. Hewitt Press, 1913

Wildman prepared this volume as a text for his course in Theory of Accounting at New York University's School of Commerce, Accounts and Finance. He intended to supplement it with collateral readings, "with a view of bringing to the

attention of the student the greater detail on many topics." Consequently, instead of the traditional analytical approach, used by most textbook writers, he wrote using the synthetical approach. This break with tradition was intended to show how economics, law, finance, and organization relate to accounting theory and reveals Wildman's conviction that the "modern" accountant must possess more than a knowledge of accounting if he was to take his place in the growing business community.

Principles of Accounting is a lengthy volume filled with information valuable to the business student, student of accounting, or accounting practitioner. There are 49 chapters and, although the book is not broken into parts, the first part contains seven chapters devoted to the economics of business organization.

Wildman's position on the practice of crediting the proprietor's account for interest on owned or invested capital is plainly stated in Chapter Three. He calls the practice fallacious and states:

To attempt to analyze profit and attribute certain shares to the various forms of capital which assist in its production, as has been suggested above, seems not only wholly uncalled for, but wrong in principle. The income derived from capital invested in a business organization is profit and not subject to analysis or division.

The chapter on depreciation was particularly valuable to the reader of 1913 for two reasons:

1. The recognition of the existence of depreciation was of recent occurrence. A short time before the publication of this book accounting practice did not take into consideration the element of depreciation.
2. The chapter contains numerous legal references that develop the modern attitude of the courts toward depreciation.

The influence on Wildman of contemporary writers in the business and accounting disciplines is plainly evident in this volume. When discussing the functional type of economic organization, for example, he refers to Frederick W. Taylor:

Great credit for this is due to Dr. F. W. Taylor, of Philadelphia, who has made a study of management his life work.

Following many of the chapters in the book, Wildman provides references for collateral readings in which he recommends specific sections of works by Haskins, Dickinson, Sprague, Bentley, Hatfield, and others. Hatfield had published, in 1909, a major work with the title, *Modern Accounting — Its Principles and Some of Its Problems*. One could infer that Wildman's choice of the word "principle" to denote the common elements of the accounting discipline was derived from Hatfield and that they did hold a common view.



Cost Accounting. Brooklyn: The William G. Hewitt Press, 1913

This edition, a revision of the 1911 version, grew out of Professor Wildman's experience as a teacher of accounting in New York University School of Commerce, Accounts and Finance. It was intended as a textbook, not because there was a shortage of quality cost accounting literature during the period, but because the material available was deemed to be too highly specialized for teaching purposes. Wildman hoped that this book would, for the beginning cost accounting student:

... give a broader conception of the subject, impress the principles underlying it firmly upon his mind, and so prepare him that he may attack intelligently and

successfully the problems which confront him and read and study to better advantage some of the more interesting literature now available and being prepared by specialists in this line of work.

Cost Accounting is a compact 100-page volume that not only describes fundamental cost accounting principles for the layman but also contains what Sowell considers to be original thinking that advances the theory of standard costing. Sowell credits Wildman with recognizing that estimated costs represented hypothetical figures "founded on the assumption that the costs for the current period will be the same as those of the next preceding period." Sowell's analysis of Wildman's procedure to record the relevant cost data reveals that, while it discloses the estimated cost and resulting variations between estimated and actual cost, the figure for "Cost of Contracts," which would be closed into Profit and Loss, represented actual costs.³¹

The book was written without resorting to the use of complicated forms, as was the custom of the period. Wildman felt that the student could better utilize his time in understanding the *purpose* of the form than devoting a lot of time to collecting forms to cover every subject.



"Interest on Owned Capital," *Journal of Accountancy*, June, 1913

There appears to be no argument as to the propriety of including interest on borrowed capital as a part of cost. The usefulness of including interest on owned capital as a selling cost is the subject of this article. Income produced is required to provide payment to four factors of production in the form of

rent for land; wages for labor; interest for capital; profit for business organization.

An example is developed in which two organizations, whose operations are the same except in the manner of charging interest on owned capital, are compared. In the first example the interest on owned capital is taken in as income. The net income (profit and loss) of the two organizations is identical. In the second example the interest earned on owned capital is credited to surplus. The net income of the two organizations differs by the amount of interest so charged.

Assuming that the three principal objects in ascertaining costs are to determine accurate profits; serve as a basis for fixing selling prices; and, provide proprietors or administrative officers with information upon which to decide financial policies and guide the operations; it would not seem difficult to decide as to which is the better of the two theories.



Principles of Auditing. Brooklyn: The William G. Hewitt Press, 1916

Principles of Auditing reflects Wildman's concern over several nonacademic auditing matters. Written during his teaching years at New York University, this book was an attempt to provide the accounting student with an awareness of the techniques of auditing. It was not a study in the theory of auditing principles, as might be presumed from the title. A better descriptive title for the book might have been, *The Technique of Conducting a Professional Audit*.

In the Foreword to this volume, Wildman reveals his reasons for writing the book. His hope is that by setting down guidelines to the conduct of an audit he will spare the reader the

painful humiliation suffered by an aspiring young accountant (probably himself) upon being sent on an audit engagement alone. (Too modest to use the first person, Wildman attempts to disguise the young man he is describing.)

He had been afraid to ask questions for fear such procedure would create the suspicion that he did not know as much about his work as he should. For the same reason when sent on the engagement alone he did not ask for working papers and reports which would serve as guides. The result of his work almost proved disastrous. Conscientious and careful as the work had been, the report, although prepared with great pains, was not in the form used by the firm. When it was reviewed by the report department it was not only torn to pieces and made over but the accountant was held up to ridicule before a number of persons who happened to be in the room.

The book is divided into three major sections. The first section contains six chapters and dealt with "What to Learn Before Beginning an Audit," and includes Wildman's explanation for audits being performed:

Generally speaking it may be said that auditing is done, first, to satisfy someone as to the correctness of the accounts; second, to prove or disprove some contention; third, to influence prospective purchasers of goods or proprietary interests, and prospective creditors.

Section two of the book is titled, "How to Begin an Audit," and Section three, "What to do During an Audit," contains the bulk of the work (fourteen chapters).

The book is focused upon audit method and is written in a clear, precise manner, without lengthy discussion involving accounting theory. Wildman avoids prescribing theory since the

student deficiencies he is attempting to address are not theoretical but procedural, thus:

Patents, trade-marks, copyrights and good-will may all be included in one account. Again the discussion as to whether or not they have been properly handled will depend upon the theory which the auditor holds concerning each item.

However, Wildman does not avoid accounting theory altogether.

Stock which has not been issued should never, in the opinion of the author, be considered as treasury stock.

William Morse Cole, a Harvard accounting professor who reviewed the volume in 1917, noted:

Both for what Professor Wildman's book attempts to do, therefore, and for the way it does its work, it is well worth while. With the qualification that it should be accompanied by discussion of other, and even more important, aspects of auditing, it is to be recommended highly for use wherever auditing is to be studied. No discussion of auditing is complete without the sort of things that this book gives, and many things are not available, so far as the reviewer knows, anywhere else in book form.³²



"Accounting and Modern Industry," *Electric Railway Journal*, October 14, 1916, pp. 793-95

There is reason to believe that accounting has played and is playing an important part in the development of modern industry, especially in the United States.

Modern accounting may be said to date from the beginning of the trust movement which dates in the United States from the late 1890's. During the years which followed several hundred large combinations with total capitalizations exceeding \$4 billion were formed. Many writers and some fairly prominent authorities predicted failure. It was agreed that no one man or board of directors could successfully administer such huge organizations. But now, the United States Steel Corporation and the United States Rubber Company could scarcely be called failures. Accounting has aided the administration of a business so that large scale enterprise is run as intelligently as a small business had previously been run. (Wildman is asserting that accounting efficiency is a factor in what has been termed "efficiency of scale.")

An accounting system is no longer primarily used for detection of fraud and error, for it can be used also to gather information which will not only permit comparison of companies of the same class, but also serve the purposes of the company manager and the investor, present or prospective, not to mention the taxpayer.

In passing a federal income tax law, the government drew the attention not only of the corporation but the individual as to the necessity of keeping better financial records. Moreover, with the prosperity following the World War, the Federal Trade Commission has urged upon businessmen the importance of enlarging their knowledge of accounting and improving their accounting methods. With this end in view the commission has recently issued two notable pamphlets. One is entitled "A System of Accounts for Retail Merchants;" the other, "Fundamentals of a Cost System for Manufacturers."

Industry everywhere in the United States seems to be awakening to the need for accounting. But the potential for account-

ing, which the big combinations were quick to see and make profitable use of, are not being realized by the rank and file of industrial organizations.



Merck's Report, A series of ten articles written for Merck and Company, a New York Pharmaceutical Manufacturer, and published in their quarterly newsletter between January, 1916 and April, 1918 (Vol. XXV - Vol. XXVII)

While at New York University Wildman taught adult education courses including one offered entitled "Accounting for Business Men." George Merck, who was later President of Merck and Company (pharmaceuticals), was a student in this course. It is not hard to imagine the discussions of these two men, one a promising businessman, the other a respected accounting educator, and these discussions having an influence on the content of the articles.

"Trying to Borrow Money," January, 1916

The approach that Wildman employs in this series of articles is different from anything else he is known to have authored. The articles are written like short accounting novels, evidencing a literary style not employed in his other writings.

Each article takes a business problem that could be faced by a Merck customer and focuses upon the accounting aspects thereof. In the initial piece for example, the "plot" is that:

Boswell was in need of money. He needed it badly. The Sumner Chemical Company, from which he bought many articles was pressing for payments. Other creditors were equally insistent.

Boswell applies to his bank for a \$2,000 loan and is told to submit a financial statement for consideration. What he eventually submits is a random listing of his assets and liabilities (he has no accounting system). The bank refuses the loan because Boswell has a great deal less than a \$2,000 proprietorship in his business.

The reader of the article is left with the feeling that:

1. A businessman must have an accounting system if he is to know where he stands financially and how he got there.

2. Boswell, even though his financial condition was unsettled, may have gotten the loan if he had been able to supply financial statements which suggested his business held "promise" and was subject to a well designed financial reporting system. Thus, Wildman included as an example for proper disclosure a comparative "Income Statement" (see Statement on the next page).



"Figuring Profits," April, 1916

The tale that Wildman weaves for the reader of this article involves a confrontation between the speaker at a meeting of the local Merchants Association and a Mr. Russel, the hero of the story. The speaker advocated that retailers who added a certain percentage to cover selling and administrative costs and to provide for profit should use selling price as the basis for their calculation if they wanted to avoid the surprise of discovering at the end of the period that their profit margin was too low. Mr. Russel objected to the speaker's approach.

In a moment of reflection after the meeting, Mr. Russel said to his friends:

I do not know what the general practice is with respect to the basis employed. I do not know that any-

CHARLES J. BROWN

COMPARATIVE STATEMENT OF INCOME AND PROFIT & LOSS FOR THE YEARS ENDED JUNE 30, 1915 AND 1914 RESPECTIVELY

	June 30,	
	1915	1914
SALES,	\$22,548.40	\$20,862.13
COST OF GOODS SOLD,	15,783.88	14,243.15
GROSS PROFIT ON SALES,	\$ 6,764.52	\$ 6,618.98
Ratio of profit to cost,	(42.85%)	(46.47%)
SELLING EXPENSE:		
Salaries of clerks,	\$ 3,325.50	\$ 3,586.97
Wrapping material,	127.82	150.27
Store expenses,	821.13	986.35
Advertising,	525.00	300.00
Total selling expense,	\$ 4,799.45	\$ 5,023.59
SELLING PROFIT,	\$ 1,965.07	\$ 1,595.39
Ratio of profit to cost,	(12.45%)	(11.20%)
ADMINISTRATIVE EXPENSE:		
Office salary,	\$ 624.00	\$ 595.00
Office supplies,	37.82	35.43
Office expenses,	123.48	125.47
Telephone and telegraph,	52.35	48.92
Total administrative expense,	\$ 837.65	\$ 804.82
NET PROFIT,	\$ 1,127.42	\$ 790.57
Ratio of profit to cost,	(7.14%)	(5.55%)
DRAWINGS,	600.00	600.00
BALANCE ADDED TO		
PROPRIETORSHIP,	\$ 527.42	\$ 190.57
PROPRIETORSHIP BEGINNING		
OF PERIOD,	7,526.48	7,335.91
PROPRIETORSHIP END		
OF PERIOD,	\$ 8,053.90	\$ 7,526.48

From: *Merck's Report*: January, 1916

one knows. No statistics on this point so far as I am able to learn have even been compiled. I have heard the contention made for each side with equal force. There are undoubtedly many merchants who figure their profit on sales. They are wrong. I have heard it said that it makes no practical difference so long as one method or the other is consistently adhered to. This may be true. For comparative purposes, however, it would be better if all merchants were to adopt the same basis. That basis should be cost, since there can be no such thing as selling price unless it is preceded by cost. Profits are additions to cost, not deductions from selling price.



"Telling Them How To Do It," July, 1916

This article and the three that follow concern Bennett and Briggs, partners in a retail drugstore. Briggs, who is the "hustler" of the two and the one who devotes most of his time to the business, is aware that something is wrong with the firm's accounting system but lacks the training to define what it is. He calls in Newell, an accountant, to evaluate the firm's administrative procedures and to render a report "as to what the situation really shows."

Newell is astonished to discover that the partners kept their books by single entry. It was inconceivable to Newell that a twentieth century firm was not using a double entry system.

The article ends with the promise of a forthcoming report (the next article in the series) and the following warning:

"It will probably be about two weeks before I can tell you where you stand. You see, poor methods are expensive. They are also dangerous. A government statistician has reported recently that of the business failures last year something like 15,000 were due to poor bookkeeping methods. Why put yourself in this class?"



"Telling Them How To Do It," October, 1916

When Briggs received Newell's report he was dismayed. He had thought the business was worth \$35,000, but the report showed the net worth to be less than \$9,000 (the article specifies \$8,927.82). Furthermore, Briggs discovered that, where he had supposed he was working for a profitable business:

"You have worked for five years as hard as you could, drawing a mere pittance for the privilege of owing Bennett \$7,126.09. If you had kept proper books and had proper statements you could have done something before you got in so deep. Your story is that of hundreds of other merchants who neglect their accounts until insolvency stares them in the face."

Briggs had certainly learned a valuable lesson. The single entry accounting system is not sufficient to tell the businessman where he is and how he got there. What was needed was a changeover to keeping the accounts by double entry.

A Comparative Statement of Income and Profit and Loss and the partner's Statement of Account for the five-year period are shown in the article. They provide an interesting example of the state of financial disclosure in 1916.



"Putting in a System," January, 1917

As the title suggests this article, and all but one of the remaining articles in the series, describe in considerable detail the steps that a small businessman would take to convert his accounting and reporting system from either a single entry system or no system to a double entry system. The one exception is the ninth article which is a digression from the theme; it covers how to handle the increased income and war excess profits tax.



Haskins & Sells Bulletin, First edition: March, 1918; Final edition: January, 1932

GENERAL

Shortly after the firm of Haskins & Sells began their third decade of operation they felt the need for someone who "might look out for the comfort of the staff and serve as counselor and guide to its members in matters technical, educational, and professional." Such a man was John R. Wildman, a member of the H & S staff from 1905-1909 and, at the time, a professor of accounting at New York University. Wildman rejoined H & S in order to take charge of a new department called "The Department for Professional Training," but retained his professorship at NYU until 1923.

The *Haskins & Sells Bulletin* was the organ of the Department for Professional Training to bring to the attention of the staff technical developments in accounting, auditing, and reporting. The first issue was published on March 15, 1918 and continued generally on a monthly basis until January, 1932.

Normally the *Bulletin* contained eight pages. The first page contained an "editorial" almost always written or reviewed by Wildman. He covered such practical audit matters as: inventory valuation, actual and contingent liabilities, recurring charges, balance sheet audits, and audit working papers. Report matters were also covered, such as preparation and writing of reports to include grammatical construction and the use of words, comments, footnotes, qualifications, and comparative statements. The following provide some examples abstracted from the *Bulletin* from the period 1918-1932.



"Activities of the New Department," March 15, 1918

This editorial included the plan which Wildman had submitted as to the purpose and activities of the Department for Professional Training. He considered a most important addition to the firm to be its library. In his view a library was intended to have a broader meaning than just a collection of books. To Wildman it meant a place where men worked and read when not engaged in client activities.



"Certified Financial Statements as a Basis for Credit," September 15, 1920 (A paper read before the Utah Bankers' Association, Ogden, June 19, 1920)

The old idea that a bank was a place in which to keep money has given way to a new order of things wherein the bank has become an institution in which to accumulate funds in order that they may be made available for the financial needs of the country. Good judgment is necessary if the loanable fund is not to be impaired through losses.

The reputed basis for business loans is confidence. Confidence is the belief on the part of the lender that the borrower will be willing and able to repay. Some banks loan altogether on confidence. Others ask prospective borrowers to furnish financial statements. But the prudent banker insists upon certified financial statements as a condition for making the loan.

It is interesting to note that the January 15, 1921 *Bulletin* contained an announcement that the Utah Bankers' Association adopted a resolution calling upon members to require financial statements before making loans.



"Sensible Accounting for Social Agencies," January 15, 1922
(An address before the General Council of The National Information Bureau, Inc., Waldorf Astoria Hotel, New York, December 10, 1921)

Accounting for social agencies, or similar organizations, which is sensible and satisfactory must meet the test of four typical individuals: the contributor, the social worker, the agency accountant, and the auditor. Each has his point of view.

The agency makes it appeal on the strength of need and implies that the funds will be used honestly, wisely, economically, and efficiently. Any accounting to be satisfactory to the contributor must be convincing in these three respects.

The social worker is chiefly concerned with achievement. The function of the accountant is to provide the system and prescribe the method whereby the record is made of funds received, disbursed, or applied, in accordance with the desires or understanding of contributors and to prepare financial statements which will clearly and convincingly establish the fact that the funds have been properly administered. The function of the auditor is to review the accounting work and pass judgment on the financial statements which result therefrom.

The accounts of organizations such as those under consideration are usually kept on what is known as a cash basis, that is: actual receipts and disbursements of cash. Consequently, the statements of agencies as a rule are statements of cash receipts and disbursements of general and of special funds.



"Capital Stock Without Par Value from an Accounting Point of View," distributed as a pamphlet with the June 15, 1922 issue of the *Bulletin*

The original purpose of the law providing for issue of stock without par value is viewed as serving to remove any expres-

sion or impression of a fixed value attaching to such shares; this for such benefit or effect as it might have in the affairs of corporations and their relations with those who contribute capital to corporate enterprises.

The law has a distinct advantage for directors who desire to be honest and straightforward since it relieves them of the necessity of becoming parties to a fiction which has often been misleading. This fiction has in the past been particularly true in cases involving patents, copyrights, good-will, contracts, mines, etc., where there is a broader subjective difficulty in determining value.

Under a law providing for common stock without par value, the situation and procedure appear immediately to be much simplified. The common shareholder, regardless of what he may have paid for his stock, becomes entitled to such proportion of the net assets, after deducting the value of any preferred shares outstanding, as the number of shares bears to the total number of common shares outstanding.

The effect of non-par value common stock laws upon the policies of directors should be positive in many respects, for previous laws made shares of stock which were issued for less than their par value partially paid and therefore assessable for the difference, and it was customary for companies acquiring patents, copyrights, good-will, etc., to fix the value of such acquisitions at the par value of the stock issued in exchange therefor.

The problems surrounding capital stock without par value are too varied to permit general rules for their solution. On the other hand, it may be found helpful if a few classified thoughts, in summary form, are set down:

1. Ascertain the state in which the corporation is chartered

and consult the laws thereof bearing on shares of stock without par value.

2. Determine amount of stated capital, if any, and take into consideration the significance thereof.

3. Credit amounts received or values arising from sales or issues of stock to an account entitled "Paid-in Capital," differentiating in case there is both preferred and common stock.

4. Credit net profits or charge net losses to surplus account. The idea that a corporation having stock without par value has no need for a surplus account is erroneous.



"Consideration of the Sinking Fund Method as a Basis for Amortizing Franchises," December 15, 1922 (A paper read before a Regional Meeting of the American Institute of Accountants, at Cincinnati, Ohio, November 11, 1922)

A sinking fund is an asset, withdrawn and set apart from general funds, which, through periodical deposits with interest accretions, will accumulate at a future given date to a sum sufficient to liquidate a certain liability.

A franchise is a governmental grant, giving the exclusive right to make use of natural resources, or of public property, either for a term or in perpetuity. Complications will be avoided and the issue made clearer if franchises granted in perpetuity are eliminated.

If it is desired to provide for the replacement of the franchise so that, at its expiration, the capital of stockholders will have been kept intact, the creation of a sinking fund is obviously necessary. The distinction between a sinking fund for the replacement of capital and the sinking fund method of arriving at figures which will measure the amount of amortization ap-

plicable to the franchise from time to time should be kept constantly in mind.

It is characteristic of a sinking fund that the deposits are equal in amount but somewhat less than would be a pro rata based on the number of periods, because of the interest which is compounded. The sinking fund method does not provide the interest. The effect of the sinking fund method is to make charges which are low during the early years in the life of a franchise and high during the latter years thereof.

Authority for the use of the sinking fund method as a basis for amortizing franchises is somewhat difficult to find. If there are any texts, authoritative or otherwise, which advocate a method other than the straight line method, they are not generally known.

The sinking fund method as a basis for amortizing franchises is unsound, because it makes use of an interest theory which does not apply; because it confuses the issue by suggesting a replacement of capital through the setting aside of assets, which is no part of the problem and does not take place; and because it reduces the value of the franchise in unequal amounts, which is inconsistent with the gradual diminution contemplated by the theory of amortization. It is impracticable and dangerous, because of the inequities which its use may perpetrate. It makes something which is simplicity itself appear involved and difficult. There is no comparison between the sinking fund method and the straight line method in the amortization of franchise values.



"Back to the Land of Matches," November, 1923

In the summer of 1923, Wildman vacationed in Europe. This article was written at the request of the editor of the *Bulletin*.

It is a semi-humorous piece describing Wildman's impressions of England and various countries in Europe. Semi-humorous because, while he laments the dearth of matches and those little pieces of soap so conveniently found in American hotels, he acknowledges the merit and history of the old world.



"Looking at Financial Statements," August, 1924 (A talk given before the National Institute of Credit, New York)

The test of a good credit risk is the credit seeker's willingness and ability to pay. Willingness alone profiteth little. Willingness coupled with ability to pay is the true foundation on which credit granting should rest.

In the use of financial statements for credit-checking purposes there are two cardinal principles which should be observed: first, that the items on the balance sheet and on the income statement be reduced to a percentage basis; second, that provision be made for utilizing these statements, so that the data therein presented may be tabulated from period to period, so as to make it comparative.

Financial statements are not of much value for credit checking purposes if they are not fairly accurate and dependable. The function of the certified public accountant is to audit and examine accounts and records of business organizations and make independent reports on the condition and results of operation thereof. Unverified statements are dangerous for utilization in connection with credit checking.



"Significant Development Relating to No Par Shares," June 1927

The perplexities of accountants in dealing with corporate shares of no par value have centered, to a considerable extent,

around surplus. Statutory definitions of surplus have been lacking. Surplus, at times, has meant everything from profits on turnover of investment to the excess of asset values over liabilities and stated capital.

In Delaware the matter of surplus has been cleared up definitely, fearlessly, and in no uncertain terms. There are four points in the amended Delaware law which are of particular interest to accountants:

1. The consideration received for shares of stock without par value may be divided, part being credited to stated capital and part to surplus.

2. The excess of asset values over liabilities and stated capital is the measurement of surplus.

3. Dividends may be declared out of any surplus.

4. Profits may be determined without taking depletion of wasting assets into consideration.

The amendments of the Delaware law sets an important precedent which Ohio already has followed, to some extent.



“Profit, Dividends and Appreciation,” March, 1928

It is considered a precedent to the declaration of a dividend payable in cash that profits equivalent to the proposed dividend shall have been established.

Profits, if not distributed, represent a part of surplus. Surplus is the excess of assets over liabilities (including reserves) and capital. All surplus is not profit any more than all profit is cash. Surplus may be derived from profit, from adjustments of asset values, from adjustments of liabilities, or of reserves, or from the consideration received in exchange for capital stock disposed of at a premium.

Any surplus may be partitioned by means of a stock dividend. Only earned surplus, or surplus resulting from established profits, may be distributed in cash.

It appears that: appreciation of depreciating property should be credited to a reserve account and not to capital surplus; appreciation on non-depreciating property may be credited to capital surplus; capital surplus should not be made to absorb a profit and loss deficit; capital surplus preferably should not be partitioned; stock dividends should be used to partition only such capital surplus as has been realized, or established, which surplus in effect becomes earned surplus; cash dividends should be declared only out of earned surplus; in the case of any balance sheet involving the foregoing matters the surplus should be set forth so as to show its component parts and their respective origins; in any case where statutes permit procedure to the contrary, the departure, of course, must be countenanced, but, by the same token, the facts must be shown clearly.



"Appreciation From the Point of View of the Certified Public Accountant," January, 1929 (Address delivered at a Meeting of the American Association of University Instructors in Accounting, Chicago, December 27, 1928)

The facts are, whether or not such procedure is justifiable, that physical property and intangible assets frequently are revalued by, or at the instance of, the owners of such possessions who attempt, in various ways, to give expression to the estimated increases in value. Therefore, the certified public accountant's interest in the subject of appreciation is a practical one. He is forced to consider the matter in connection with his review of accounting and his certification of financial statements.

Appreciation in its relation to capital seems to warrant the conclusion that an increase in the book value of an asset does not justify an increase in the capital account unless the asset has increased value in use. Increased value in exchange does not constitute grounds for increasing capital.

No one should be misled with respect to the credit for appreciation. A descriptive title, which would be universally acceptable is difficult to find. Judging the matter from the standpoint of what must transpire if effect is to be given to appreciation, and it is to be treated correctly in its relation to the asset, to capital, to depreciation, to earnings, and to surplus, the element seems to stand out clearly as an estimated increase in value which has not been established by realization, or by earnings. Consequently, it may be described accurately as "un-realized appreciation" or "unearned appreciation."



"Preferred Surplus," March, 1929

A recent decision in the Wabash case (Barclay et al. v. Wabash Railway Co.), affecting as it does the matter of dividends, again calls attention to the possibility in the future of a change in the cardinal principle which long since has guided accountants in considering the relation of dividends to surplus. The principle is that dividends are chargeable against surplus only when declared. The decision in question, if affirmed by the United States Supreme Court, will challenge continued adherence to that principle, in cases where there are preferred shares.

Until recently it has been thought that there was no necessity to consider any rights of non-cumulative preferred shares in profits which might be earned in a given year, but not declared out as dividends. There are, however, enough cases upholding

the non-cumulative preferred shareholder in his claim to a right in surplus if profits in a given year are earned but not declared, to merit some serious thought on the part of accountants.



"No-Par Discount," June, 1929

One of the advantages of shares without par value is release from the bondage of tradition. General acceptance gave sanction to the theory that the amount of value established by the par of shares outstanding determines the amount of capital of an enterprise, and such must be the amount of asset value, regardless of what it may consist. This theory, perforce, had to be maintained, and the representations of necessity had to fit the theory, regardless of inconsistencies. Thus crept into deferred charges the item called discount on capital stock.

This deceptive asset was born of expediency. It has been referred to, very appropriately, as "an asset by courtesy." To say the least, this is broad-minded tolerance. To admit the facts, one would have to say the "what can't be cured, must be endured."

The only amount of capital which may be shown properly in connection with no par shares is the amount of consideration received for such shares. If shares without par value had no other advantages, here would be one for which to be thankful. Capital resulting from the issuance of shares without par value should be shown in an amount equal to the value of the consideration for which the shares were exchanged.



"The Capital Adjustment Theory of Treasury Stock," January, 1932

Treasury stock of a corporation is capital stock acquired by the corporation subsequent to its original issuance. If acquired

in exchange for a consideration, the transaction results in a reduction of capital in an amount equal to the money value of the consideration given for the stock. Capital stock outstanding is a representation that there is capital in the enterprise equal in amount to the par value or the stated value of such stock. Treasury stock, acquired in exchange for money consideration, is an admission that capital has been withdrawn from an enterprise. A sale of treasury stock results in an increase of capital equal in amount to the money value of the consideration received for the stock.

The capital adjustment theory as a novel proposal attempts to adjust transaction price to the par or stated value of the stock. In order to do this a new class of capital is introduced — “non-stock” capital. Non-stock capital includes capital that is other than par or stated value capital.

The capital adjustment theory brings to light the following aspects of treasury stock transactions that have been neglected in the commodity theory:

1. That a transfer from surplus to capital is necessary when a corporation buys its own shares. A corporation may not buy its own shares without an amount of surplus sufficient to cover the purchase price, except:

2. That any non-stock capital resulting from adjustments of capital due to transactions by a corporation in its own shares may be treated as a reduction of the amount which must be transferred from surplus. In this there is an implication that non-stock capital resulting from the excess proceeds over par on sales of shares at time of original issuance may be also used as a reduction.



"Certified Financial Statements as a Basis for Credit," Journal of Accountancy, September, 1920

The banker has been an important factor in the expansion and development of American business. Some banks lend altogether on confidence. Others ask prospective borrowers to furnish financial statements. There are borrowers who submit statements which are wrong and misleading in part because of the ignorance of those who prepared them. There are others who offer financial exhibits which are intended to deceive. The financial facts represented by statements should be verified.

The borrower is naturally biased in his own favor. Without of necessity misrepresenting anything or in any way misleading he is always optimistic as to his financial condition and presents his case in the most favorable light. The independent and disinterested investigator has no such bias. He searches out the cold facts. He presents them in an equally cold-blooded manner. Further, he certifies to them.

A balance sheet prepared for stockholders or prospective investors might contain all the information which the banker needs, but presumably would not be as satisfactory as one which would focus the attention immediately upon the liquid aspect of the situation.

In the present peculiar economic condition, in which this country is now found, the banker needs facts from which to proceed. It is contended that certified financial statements prepared by duly qualified independent accountants may be a most effective means of assistance to him in these matters. They may be of help to him in exercising judgment as to the granting of loans. They may help to satisfy him subsequently as to the judicious use of the funds so lent. They will help him in keeping the loanable funds of the country employed to best

advantage while taking every precaution as to their safety and prompt return.



“A Research Program,” *Accounting Review*, March, 1926

This report from the Chairman of the Committee on Research of the American Association of University Instructors in Accounting reflects the opinions of Wildman as to where the Association should place its research effort. A committee had been appointed to study this issue but, in part because of geographic and temporal constraints Wildman proposed a detailed outline of a research program for accounting.

It contains an introduction, covering such things as the general purposes of research, the purpose of research in accounting, the disciplines that accounting is dependent upon, and the objective of accounting research. The outline contains about fifty topics suggested for research. Wildman recognized that the list of topics was not all inclusive. His wish was that this list would be freely discussed and criticized, and thus better topics would be added. In Wildman's view:

This suggested outline is submitted to you to discuss without gloves. Say anything you want to about it. All that I ask is that you will do something about it after the discussion is over.

The list of topics that Wildman submitted is of a lasting character. For example, an initial research topic which he suggested was “An interpretation of economic theory which will make it understandable to accountants,” and a second was “An examination and attempted reconciliation of the various con-

cepts of capital.” These topics and others on the long list continue to receive research attention today.



Capital Stock Without Par Value. New York: A. W. Shaw Company, 1928, (with Weldon Powell)

The first no-par law was enacted in the State of New York in 1912. By the time this book was published in 1928, thirty-nine other states had passed statutes allowing corporations to issue shares without par value. The merits of issuing stock without par value had long been known to readers of the *Haskins & Sells Bulletin*, the firm's internal publication, for it was one of Wildman's favorite topics. Powell received his MS in accounting from the University of Illinois in 1923 after submitting a 155 page thesis on "Some Principles in Accounting for No-Par-Value Capital Stock." It was soon after that Wildman and Powell collaborated in preparing *Capital Stock Without Par Value*.

As a work dealing with capital share theory, it was *timely*, and today may be viewed as *timeless*. *Timely* because the analysis in the book made it invaluable to the accountant of 1928 after several states had enacted no par statutes in the boom years after World War I and *timeless* in that it serves as a useful reference statement as to the significance of no-par stock, its historical development, and its advantages and disadvantages. Furthermore, the book is a statement of the theory of accounting for enterprise capital.



"Classification of Accountancy Services," *Accounting Review*, June, 1928

The existing need [for classification, definition, and differentiation of the services rendered by public accountants] should be apparent to anyone who has had the opportunity and time to observe the development of accountancy.

Accountancy practice in this country has grown from a theoretical zero to an institution comprising, probably, 25,000 public accountants, and gross annual earnings estimated at from \$50 to \$100 million. Twenty-five years ago engagements were taken, work was performed, reports were prepared and rendered, bills were paid, and few, if any, questions were asked by clients. Today, after twenty-five years of teaching accounting and related business subjects in the country's universities, knowledge of accountancy has become widespread. Interest in the work of the public accountant has become keener, and the business man has started asking questions. The point of their inquiry usually is, "What did the accountant do?" Seldom, if ever, do they ask, "What was the accountant engaged to do?"

A review of passing events, and of events which have transpired during the last five years, indicates clearly that there has been much lack of understanding between accountants and their clients as to the specific nature of the accountant's undertakings.

The remedy for many of the vicissitudes of accountancy practice is found from an analysis and study of the services performed by public accountants, and a classification, definition, and differentiation of the services rendered.

Haskins & Sells developed a service classification scheme which divides accountancy services into fourteen categories and

specifically defines each category, differentiating one from the other. The classifications include the following services:

1. General Audits.
2. Examinations of Financial Condition.
3. Cash Audits.
4. General Examinations.
5. Limited Examinations.
6. Investigations.
7. Preparation of Statements from Books or Records Without Verification.
8. Tax Engagements.
9. General Accounting Systems.
10. Cost Systems.
11. Budgets.
12. Bookkeeping and Accounting Engagements.
13. Opinions.
14. Miscellaneous.



“Endorsements of National Business Year by Public Accountants,” *American Accountant*, October, 1928

This writing contains expressions by several practicing public accountants concerning use of the natural business year for banking, credit, budgeting, and accounting purposes. The natural business year would aid the public accountant by enabling him to retain permanent staffs, spreading the work throughout the year, or as an aid in preparing comparative business statistics. Wildman took a different tact:

... in order to arouse interest in the natural business year it will be necessary to advance reasons for the adoption of such fiscal closings other than that such

procedure would be advantageous to accountants. One of the reasons which it seems to me might be advanced in support of the measure is that its adoption might be beneficial to the federal government.

He went on to say that if the federal government would classify corporations according to their respective natural business year and require them to file their income tax returns accordingly, a more even flow of revenue into the national treasury would result. It might be possible that, because of the more even flow, the funding operations of the government might be easier and cheaper.

Wildman admitted that the potential for savings was pure conjecture on his part, but if it were true, it would be a potent argument in favor of the plan.



“Appreciation from the Point of View of the Certified Public Accountant,” *Accounting Review*, December, 1928

Physical property and intangible assets are frequently revalued by owners in an attempt to give expression to the estimated increases in value. The CPA, therefore, is confronted with a condition, not a theory.

Inasmuch as the CPA does not attempt to pass judgement on the revaluation or accept responsibility for the values established, he qualifies his statements accordingly.

The principle is well settled that anticipated profits may not be made the basis of dividends payable in cash. The principle is generally accepted that a rise in market prices over the cost of commodities carried as current assets does not justify a credit to profit and loss, or an increase in earned surplus.

The conclusion may well be reached that an estimated increase in the value of assets, even if the estimated increase is recorded in the books of account of an enterprise, does not increase either actually, or constructively, the surplus available to that enterprise for distribution as cash dividends.

The question may be raised, next, as to whether the procedure of increasing the book value of an asset, increases the capital account of an enterprise. The value of capital to an enterprise is determined by its earning power. Capital being but a collective term comprehending ownership of, or an equity in, the assets of an enterprise, the earning power inheres not in the capital account, but in the substance by which the capital is represented. To answer in the affirmative the question of whether increasing the book value of an asset increases capital, it must be shown that the asset which has been raised in value has increased earning power which justifies the value assigned the asset.

Physical property in the form of buildings and equipment scarcely may be considered to be capable of producing any favorable effect on earnings. Land, under certain circumstances of location and demand, may increase in value, but the increase is a theoretical one requiring an exchange in order to make it effectual. In the hands of the same owner and without improvement, usually it has no increased value in use. Mineral deposits are analogous to land. Their value in use continues the same.

Values in ore bodies, or other natural resources, established by discovery and engineering appraisal, constitute an exception to the foregoing statement, in that they represent added wealth which finds its rational place in capital, and is justified by increased value in use, with the consequent effect on earnings.

Nature, also, is responsible at times for increment which it seems must be recognized. As to intangibles, it is apparent that

some enterprises possessing rights under contracts which have been undervalued, or not previously valued, may enjoy profits in excess of those which are normal for their particular line of business.

The preceding discussion of appreciation in its relation to capital seems to warrant the conclusion that an increase in the book value of an asset does not justify an increase in capital account unless the asset has increase value in use. Increased value in exchange does not constitute grounds for increasing capital.



“Depreciation and Obsolescence as Affected by Appraisals,”
The Accountant, November 2, 1929

The profit-economy under which business is conducted contemplates that the purchaser of goods shall pay the seller a price which results from adding to cost a margin for profit. Physical property which, through its use, contributes to the production of goods or services, rightly may be regarded as depreciating in value, and the loss in value properly may be considered to constitute an element of cost.

In due course, if the business continues, the physical property will have to be renewed. Into this situation the price-level obtrudes. If by the time replacement of the property is demanded prices have risen, the purchasing power of the dollar will have declined. The dollar originally invested then may purchase but eighty cents worth of property. In other words, the dollar may purchase but four units, whereas originally it purchased five.

The effect on subsequent cost is not altered. Future customers will pay the same amount for the replacement of four

units of property, only at a higher rate per unit than those in the first depreciation age. And so the process may continue, governed always by the price-level. Over sufficiently long depreciation periods there may be several counter-balancing changes in purchasing power. A depreciation program designed to provide for higher replacement costs may be entirely upset by falling prices long before the time to replace arrives.

Is it the part of wisdom and good judgment to attempt to give effect in present costs to future variations in the purchasing power of the dollar?

Admittedly, property-depreciation on the basis of original cost must be recovered out of sales, if capital is to remain intact. Admittedly, a margin for dollar-depreciation must be established in some manner, if property is to be replaced in kind and will be purchasable at time of replacement only on a higher price-level. But, it must be known first that such condition will exist.

The subject of obsolescence presents problems not unlike those of providing for dollar-depreciation. The theoretical effect of providing for obsolescence is to increase the depreciation rate; a shortening of the natural life by applying a factor to cover a sudden death.

If the uncertainty of obsolescence is linked with that of dollar-fluctuation, the difficulty of practical application becomes complicated in the extreme. Stated in terms of cost accounting, the provisional charge for replacement must comprehend a base rate for natural depreciation, plus two supplementaries: The first for obsolescence; the second for dollar fluctuation.

Appraisal, if an accountant might venture to state his understanding of the word as used in a technical sense, is a systematic study of the quantity, quality, cost and condition of

the units comprising property, and of their utility as a whole, from which is established a value in terms of current prices.

Appraised value, for the purpose of this discussion, will be taken to mean reproduction cost, less accrued depreciation.

The pressing questions, in most cases nowadays, grow out of increases in value, because of the marked rise in the general price-level over the past fifteen years.

Appraisals which bring about increased values first raise the question of what is to be done with accrued depreciation in excess of that for which provision has been made since the opportunity to recover it from past customers has been lost.

The questions which now arise include particularly the following: "What is the purpose in making a charge for recovery?" "Is it to accumulate a sufficient number of dollars to replace property identical with that now in service at prices determined by the present level which is higher than cost?" "Is it to keep in the enterprise an amount equal to the number of dollars originally invested?"



"Buying Your Own Stock," *American Accountant*, January, 1932

A depressed stock market has offered rare opportunities for corporations to purchase their own shares. Not a few corporation officials have been perplexed by the accounting problem of how to treat the stock so acquired, and, where the law requires, that such shares may be purchased only out of surplus, how to treat the surplus so used.

The accounting treatment to be accorded to such shares when purchased has been the subject of considerable controversy because of two sharply opposed theories concerning the signifi-

cance of such transactions. The two theories may be referred to as the commodity theory, and as the capital stock adjustment theory.

The commodity theory of capital stock leads to the conclusion that stock once issued and reacquired for value, otherwise known as treasury stock, properly may be recognized as an asset. The capital stock adjustment theory is based on the principle that capital stock is the representation of the capital fund in a corporate enterprise, that the issuance by the corporate enterprise of capital stock for value brings capital into the enterprise, and that the reacquisition of such stock for value takes capital out of the enterprise.

The case of *Borg, et al. v. International Silver Company* (Circuit Court of Appeals, Second District, August 4, 1925, 11 Federal Reported, 2nd Series, 147 No. 372) furnishes a basis for discrediting the commodity theory of treasury stock: "To carry the shares as a liability, and as an asset at cost, is certainly a fiction, however admirable. They are not a present asset, because, as they stand, the defendant can not collect upon them." One point further may be made before leaving the commodity theory. If capital stock is a commodity after being repurchased, it must have been a commodity when first sold. This analogy needs to be carried but one step further to have it reach the absurd point where all corporations are considered as being merchandisers of capital stocks, rather than organizations making use of capital stock as a means of assembling units of capital for the purpose of engaging in some line of business.

Corporation law, and case law seems to substantiate, the principle that corporations may not reduce their capital stock without due process of law, which takes the form in most jurisdictions of filing an amendment to the charter. It follows that

before a corporation may release any individual shareholders from their investment in the capital fund, the corporation, as an entity, must have other funds to substitute therefor. It is on this theory, presumably, that into certain laws governing corporations have been introduced the provision that a corporation may not purchase its own stock, except out of surplus.

Two principles may be advocated in connection with the purchase by a corporation of its own capital stock: first, the stock so acquired should be treated as an adjustment of the capital stock account, and not as an asset; second, that an amount equal to the purchase price be transferred out of surplus, and be made unavailable for appropriation as dividends.

PART IV

A CHRONOLOGICAL BIBLIOGRAPHY OF THE KNOWN WRITINGS OF JOHN R. WILDMAN

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FOOTNOTES

¹John T. Madden, letter of correspondence to Haskins & Sells, dated September 21, 1938.

²Interview with Dr. Joseph J. Klein, May 26, 1972, New York City.

³Interview with Mrs. Rose (Wildman) Goddard, May 12, 1978, Highland Beach, Florida.

⁴Howard C. Greer, letter of correspondence to Gary J. Previts, postmarked April 21, 1970.

⁵Maurice E. Peloubet, letter of correspondence to Gary J. Previts, dated June 22, 1970, pp. 1-2.

⁶Interview with John W. Queenan, December 27, 1977, Greenwich, Connecticut.

⁷J. R. Wildman, "A Research Program," *Accounting Review*, March, 1926, p. 49.

⁸Interview with Mrs. Rose (Wildman) Goddard, May 12, 1978, Highland Beach, Florida.

⁹Interview with John W. Queenan, December 27, 1977, Greenwich, Connecticut.

¹⁰A. B. Foye, "John Raymond Wildman," Unpublished memoranda via personal research, not dated. Transmitted to Gary J. Previts in correspondence dated February 16, 1970.

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¹²Wildman, *Principles of Accounting*, p. 4.

¹³*The American Accountant*, January, 1930, pp. 18-19.

¹⁴Maurice E. Peloubet, letter of correspondence to Gary J. Previts, dated June 22, 1970, pp. 1-2.

¹⁵John R. Wildman, "Department of Practical Accounting," *Journal of Accountancy*, January, 1912, p. 58.

¹⁶Sidney G. Winter, "What is Proper Training for Accountants?" *Accounting Review*, June, 1941, p. 188.

¹⁷Earle C. King, "Reporting Financial Data to Present and Prospective Investor," *Canadian Chartered Accountants*, November, 1949, p. 222.

¹⁸S. A. Zeff, *The American Accounting Association: Its First 50 Years*, Evanston: American Accounting Association, 1966, pp. 7-8.

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